

Message Text

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ACTION OPIC-06

INFO OCT-01 NEA-10 ISO-00 EB-06 AID-05 IGA-01 L-02 /031 W

----- 045290

P 301255Z OCT 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC PRIORITY 4956

UNCLAS SECTION 1 OF 2 NEW DELHI 14625

PASS OPIC-FOR HERMAN KATZ

E.O. 11652: N/A

SUBJECT: PIBCO - 386-E-179

REF STATE 236009

1. THIS REPLY INTENTIONALLY DELAYED UNTIL MISSION HAD CHANCE TO MEET WITH S.N. PUNJ ON 29 OCTOBER.

2. KINGERY HAS NOT TALKED TO MAGUIRE BUT HAS HAD TWO CALLS FROM MOTTIER, ONE ON THE 23RD, THE OTHER ON 25 OCTOBER. SUBSTANCE OF THESE DISCUSSIONS SUMMARIZED IN PARA 3 BELOW.

3. MOTTIER VOICED MILD COMPLAINT ABOUT JM NOT BEING INFORMED EARLIER OF AID INTENTIONS. KINGERY REPLIED BY STATING WE HAD NEVER HAD A GENERAL POLICY OF DEALING DIRECTLY WITH US COLLABORATORS ON COOLEY ACCOUNTS. MOTTIER ASKED IF WE UNDERSTOOD THAT IF WE CALLED THE LOAN IT WOULD MEAN PIBCO WOULD PROBABLY FOLD.

KINGERY ACKNOWLEDGED THAT POSSIBILITY, BUT POINTED OUT THAT THIS LOAN HAS NEVER BEEN SERVICED; THAT PIBCO HAS BEEN UNIFORMLY UNCOOPERATIVE IN COMMUNICATING WITH US IN A POSITIVE MANNER; AND THAT WE FELT WE HAVE BEEN GIVEN THE RUN AROUND ON THE MORTGAGE PROPOSAL, IN SPITE OF OUR WILLINGNESS TO SHARE, ON A PARI PASSU BASIS, FIRST CHARGE ON THE FIXED ASSETS OF PIBCO. MOTTIER MENTIONED THAT PIBCO HAS ASKED JM FOR ADDITIONAL EQUITY CONTRIBUTION OF DOLS 250,000, BUT THAT JM HAD TURNED DOWN THE REQUEST. AFTER

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THE FIRST CALL, MOTTIER CONSULTED WITH MAGUIRE AND MADE

SECOND CALL TO KINGERY. MAGUIRE WISHES TO COME TO DELHI; BUT APPARENTLY CANNOT DO SO BEFORE 1 DECEMBER. WHEN KINGERY ASKED IF MOTTIER COULD COME ALONE, HE RESPONDED AFFIRMATIVELY. KINGERY SAID HE'D ADVISE HIM OF DECISION TO EITHER WAIT UNTIL END NOVEMBER FOR MAGUIRE, OR TO ACT SOONER WITH MOTTIER ALONE; DECISION TO BE MADE AFTER 29TH MEETING WITH PUNJ. KINGERY TOLD MOTTIER THAT WE WOULD NOT CALL THE LOAN UNTIL WE HAD THE MEETING WITH JM HERE, AND THAT'S THE WAY WE LEFT IT ON 25 OCTOBER.

4. MEETING WITH S.N. PUNJ ON 29 OCTOBER WAS VALUABLE IN THAT WE WERE ABLE TO OBTAIN DATA ON PRODUCTION AND SALES. SALES IN FIRST 9 MONTHS OF CY 74 ARE VIRTUALLY EQUAL TO SALES FOR ENTIRE CY 73.

PRODUCTION IN FIRST 9 MOS. OF 74 ARE NEARLY DOUBLE THAT OF SIMILAR PERIOD IN CY 73. THEY HAVE A LARGER FAN FOR COLLECTION CHAMBER COMING IN ABOUT ONE MONTH. REGARDING THE LARGER PROBLEM OF THE BOILER, JM HAS BEEN VERY UNRESPONSIVE TO PIBCO'S REQUEST FOR COMMENT ON WHY THEY NEED DOUBLE THE PRESENT STEAM, WHEN THEY ALREADY HAVE WHAT PUNJ CLAIMS TO BE DOUBLE THE CAPACITY ORIGINALLY PROPOSED IN THE JM DESIGN. THIS IS, IN LARGE MEASURE, SPITEFUL NIT PICKING, BUT HE DOES HAVE A VALID POINT. PUNJ PROBABLY MADE THIS POINT BECAUSE HE WANTS US TO NOTE THAT HE WOULD EXPECT JM TO FOOT THE ENTIRE ADDITIONAL EXPENDITURES ON THE NEW BOILER AND OTHER CHANGES ON THE ORIGINAL JM DESIGN. PUNJ WENT ON TO RELATE IN SPECIFIC DETAIL HOW JM HAS BEEN EITHER EXTREMELY SLOW IN RESPONDING OR TOTALLY UNRESPONSIVE TO THEIR REQUESTS FOR ASSISTANCE. OUR CONCLUSION IS THAT PIBCO HAS, IN SOME DEGREE AT LEAST, A LEGITIMATE COMPLAINT AGAINST JM. PUNJ REPEATEDLY STATED THAT THE KEY TO THEIR SUCCESS OR FAILURE IS JM. STATED THAT IF THE PLANT WERE IN PROPER TECHNICAL CONFIGURATION AND CAPABLE OF PRODUCING AT DESIGN CAPACITY, THEY WOULD, BEGINNING ONE YEAR AFTERWARD, BE IN A POSITION TO SERVICE THE DEBT TO OPIC/AID.

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ACTION OPIC-06

INFO OCT-01 NEA-10 ISO-00 EB-06 AID-05 IGA-01 L-02 /031 W

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P 301255Z OCT 74

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC PRIORITY 4957

UNCLAS SECTION 2 OF 2 NEW DELHI 14625

PASS OPIC-FOR HERMAN KATZ

5. ON THE SUBJECT OF THE MORTGAGE, KINGERY TOLD PUNJ THAT AID FELT THAT WE HAD BEEN MISLED ABOUT THE WHOLE AFFAIR, AND THAT WE CONSIDERED PIBCO TO HAVE GONE BACK ON ITS WORD IN THAT IN 1971 THEY STATED IN WRITING TO US THAT THEY WERE WILLING TO GIVE US A FIRST EQUITABLE MORTGAGE BUT THAT NOW THEY WERE UNWILLING TO DO SO EVEN ON A PARI PASSU BASIS WITH THE BANK. HE BECAME VERY AGITATED AND VIGOROUSLY DENIED THAT HE HAD DONE SUCH A THING, EVEN WHEN PRESENTED WITH HIS OWN 1971 LETTER. HE STATED THAT HE HAD ALWAYS TOLD AID THAT THE BANK CAME FIRST IN TERMS OF LOAN SECURITY, AND ADDED THAT IF AID COULD GUARANTY PIBCO'S DEBT TO THE BANK, OR IF SOMEONE ELSE COULD DO SO, HE WOULD GIVE US FIRST CHARGE ON PIBCO'S FIXED ASSETS. WE POINTED OUT THAT SUCH AN ARRANGEMENT WAS NOT ONLY IMPOSSIBLE FOR US TO ENTER INTO, BUT IT IN EFFECT AMOUNTED TO THEM GIVING THE MERCANTILE BANK A NEGATIVE LIEN AGREEMENT WHICH WAS EFFECTIVELY BLOCKING PROVISION OF ACCEPTABLE SECURITY TO US. PUNJ SAID HE HAD NOT SIGNED A NEGATIVE LIEN AGREEMENT WITH THE BANK. HE AGAIN REITERATED HIS OFFER OF AN EQUITABLE MORTGAGE WITH US HILDING SECOND CHARGE AFTER THE BANK, WHICH WE, AGAIN, SUMMARILY DISMISSED AS TOTALLY UNACCEPTABLE. THIS DIALOGUE WAS NO DIFFERENT THAN THAT WE HAD IN JUNE AND JULY WHEN WE MET WITH PUNJ AND THE MERCANTILE BANK ON THE MORTGAGE DEAL.

6. WE TOLD PUNJ THAT WE WERE NOT IN THE BUSINESS OF FORECLOSING MORTGAGES OR FORCING COMPANIES INTO LIQUIDATION, BUT THAT WE HAD REACHED THE END OF OUR ROPE IN THIS ACCOUNT, AND THAT WE WOULD HAVE A MEETING WITH JM HERE, AND THAT WE WANTED HIM TO ATTEND. WE WOULD, IN THAT MEETING, SETTLE THE ISSUES FOR BETTER OR FOR WORSE, AND THAT THE OUTCOME OF THE MEETING WOULD DETERMINE UNCLASSIFIED

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WHICH COURSE OF ACTION TO TAKE: TO CALL THE LOAN, OR TO RIDE IT OUT WITH REASONABLE EXPECTATION OF DEBT SERVICE BY PIBCO, HE UNDERSTOOD THIS, SEEMED TO ACCEPT IT, AND STATED THAT HE WOULD BE IN INDIA UP TO 15 NOVEMBER, BUT WOULD BE GONE THEREAFTER UNTIL 7 DECEMBER ON A TRIP TO THE MIDDLE EAST. WE TOLD HIM THAT WE WOULD TRY TO GET MAGUIRE HERE AS SOON AS POSSIBLE, AND WOULD ADVISE HIM OF THE DATE OF THE MEETING.

7. COMMENT: IT APPEARS THAT UNLESS JM IS WILLING TO COME INTO THIS OPERATION IN FORCE, WITH TRULY COMPETENT TECHNICAL EXPERTISE, ON A SUSTAINED BASIS, THERE IS LITTLE CHOICE FOR US BUT TO PROCEED

AND CALL THE LOAN. THIS IS THE BROAD APPROACH WE INTEND TO MAKE TO JM WHEN THEY ARE HERE. ANYTHING YOU CAN DO TO ASSIST US IN ACHIEVING THIS JM INPUT WOULD BE VERY HELPFUL, AND SEEMS TO US TO BE CALLED FOR, TO STRENGTHEN OUR POSITION HERE DURING THE MEETING.

8 ACTION REQUESTED: PLEASE CONTACT JM HEAD OFFICE AND IMPRESS UPON THEM THE APPARENT URGENT REQUIREMENT FOR JM TO GIVE SUBSTANTIALLY INCREASED SUPPORT TO PIBCO, AS OUTLINED IN PARA 7, AND ALSO RAISE THE ISSUE AGAIN OF JM PARTICIPATION IN PIBCO BOARD MEMBERSHIP AS A HIGHLY DESIRABLE FEATURE OF THEIR COLLABORATION WITH PIBCO.MOYNIHAN

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